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TAGS: [ECON](#) [EFIN](#) [ETRD](#) [PGOV](#) [PREL](#) [TW](#) [CH](#)  
SUBJECT: VISIT OF PRC CENTRAL BANK OFFICIAL FAILS TO  
ADVANCE CROSS-STRAIT FINANCIAL LIBERALIZATION

REF: A. TAIPEI 855  
[1](#)B. TAIPEI 1115

Classified By: Economic Chief Hanscom Smith for reasons 1.4 (b)  
and (d).

[1](#)1. (C) SUMMARY. Taiwan officials say negotiations on a  
cross-strait financial MOU are essentially complete, but  
political considerations appear to have delayed the signing.  
During his September 7-14 visit to Taipei, People's Bank of  
China (PBC) Deputy Governor Su Ning canceled his meeting with  
Central Bank of the R.O.C. (CBROC) counterparts to discuss  
measures to enhance cross-strait financial ties, reportedly  
due to PRC dissatisfaction over the Dalai Lama's August 30  
to September 4 visit to Taiwan. In the meantime, work will  
continue on the establishment of a direct RMB/NT currency  
exchange mechanism to ease cross-strait tourists' cash needs.  
END SUMMARY.

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PBC VISITOR REVISES PLANS  
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[1](#)2. (C) In the wake of the Dalai Lama's August visit to  
Taiwan, cross-strait dialogue on financial liberalization  
appeared mired in political sensitivities. After postponing  
his trip for a week in protest of the Dalai visit, People's  
Bank of China (PBC) Vice Governor Su Ning led a delegation to  
Taiwan September 7-14 to attend a financial seminar. While  
it was widely expected that Su would engage his Taiwan  
counterparts to discuss the cross-strait financial services  
MOU, the visit ended without any major meetings. According  
to our Central Bank contacts, Su was scheduled to meet with  
Vice Governor Chou A-Ting, but received sudden instructions  
from Beijing to cancel the meeting and other unspecified trip  
activities. They speculated that because of the fallout from  
the Dalai Lama visit, Beijing took issue with Financial  
Supervisory Commission (FSC) Vice Chairwoman Lee Jih-Chu's  
September 8 comments to the press that negotiations on the  
financial MOU were proceeding as scheduled, and wanted to  
demonstrate that the Mainland did not view the situation as  
business as usual. (NOTE: During his September 14 meeting  
with the Director (ref b), Central Bank Governor Perng  
Fai-Nan indicated that Su would not be seeing CBROC

counterparts, but did not give a reason.)

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MOU STATUS  
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13. (C) According to our Mainland Affairs Council (MAC) and FSC contacts, of the three separate agreements covering securities, insurance and banking (ref b), the first two were essentially done and on hold pending completion of the banking document. The two sides had also agreed on the content of the banking agreement and were currently performing conformity exercises to ensure that the different terminologies and Chinese characters used in each side's version were not differences in concepts or understandings. MAC Director for Economic Affairs Lee Li-Zhen told us that Taiwan in principle could push for a few more concessions, but was nevertheless ready to sign all three agreements pending political decisions in both Beijing and Taipei on negotiating the "who, where, and when" of the signing process. Hinting at the sensitive political cross currents at play, Huang mused that while it shouldn't take long to do a conformity check on a four-page document that listed only broad principles, it could nevertheless take a while depending on the political circumstances.

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Work Continues?  
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4) (C) Taipei and Beijing have also been discussing implementation of direct currency exchanges, a function that Bank of America and HSBC currently perform in Taiwan through the provision of RMB gathered from sources outside the Mainland. During the financial seminar that he attended last week, Su Ning reportedly stated that such a direct exchange mechanism might be implemented without waiting for the signing of the financial MOU. The statement has provided Taiwan officials hope that despite any fallout from the Dalai Lama visit, the actual work on financial liberalization will continue. As Central Bank Deputy Director-General Huang A-Wang speculated, Su must have obtained authorization "from the top" for such a statement considering the circumstances surrounding his visit. He indicated that the CBROC had been in discussions with the PBC on ways to set up the direct currency exchange, including possibly allowing the state-owned Bank of China to establish a branch in Taipei to provide RMB. Such a step would aid the cross-Strait tourism industries, as a main complaint among Taiwan tourists traveling to China had been the old and torn RMB notes they often received from Bank of America and HSBC. With regard to a cross-Strait currency clearing mechanism that would allow commercial entities to conduct trading directly in RMB and NT\$ in addition to exchanging currencies for tourism purposes, Huang told us that such discussions were still a long way off. "For one thing, the Mainland would need to recognize officially the NT\$ as a foreign currency, with all of its sovereignty implications," he stated.

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Comment  
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15. (C) Although discussions are continuing at the working level, political concerns appear to have resulted in at least a temporary delay in completing the cross-Strait financial MOU.

STANTON